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The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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## Tax Cut Not Much Help . . .

To the cheer of many American consumers, retailers and manufacturers, the long-awaited ten per cent cut in personal income tax rates went into effect this week. Although the Administration originally hoped the cut would spur savings and investment, it now wishes that the newly available funds will be spent to lift the economy out of recession. This tax cut is expected to add $33 billion to people's incomes during the 12 months which began on July 1. When combined with the annual cost-of-living adjustment received by people on Social Security—also effective on July 1—the addition to consumer incomes will total $45 billion.

However, although the addition to total disposable incomes is large, a speedy pickup in spending, leading to an accelerated economic recovery, is not guaranteed. The average per capita weekly increase in take-home pay is small—less than $4. Therefore, a large part of the tax cut may be saved, especially at the beginning, as it goes almost unnoticed. What is more, any increase in consumption will probably not be directed into areas where it is needed most, such as automobiles, housing or big-ticket durables. More likely to benefit will be soft goods industries including apparel, cosmetics and food.

Importantly, in many cases, the weekly addition to take-home pay will not equal ten per cent of the pre-July 1 tax. Withholding rates have been re-calculated and taxpayers with lower taxable incomes will get slightly more than ten per cent— especially those with fewer exemptions—while upper-income taxpayers will receive somewhat less. This will occur because the withholding rate tops out at 37 per cent of income while income tax liability can be as high as 50 per cent. The final adjustment will be made in the form of a tax refund or an additional payment on April 15.

## . . . But Not Needed, Either

Personal income improved in May, registering the largest increase since September, 1981. Before-tax income increased by $16.6 billion or 0.7 per cent compared with April. Almost one-half of this rise was a result of a $7.8 billion growth in wages and salaries, paralleling the growth in employment and the increase in the average workweek. The largest payroll gains were in motor vehicles, electrical machinery, food and lumber industries, while the primary metals industry posted a decline. However, wages and salaries may have suffered a setback in June. Total employment fell 353,000 to a seasonally adjusted 99.8 million persons, after rising 777,000 in May. What is more, the average workweek for non-farm workers declined.

As the number of unemployed rose in May, it contributed to the sharp increase in transfer payments. In fact, recently, transfer payments have been the second fastest growing component of personal incomes. This growth probably did not continue into June as the number of unemployed decreased 1.2 per cent following a rise of 2.3 per cent in May.

Although high interest rates have flattened residential construction, contributed to the slump in auto sales and dampened business investment for almost three years, they have given a substantial boost to personal incomes. Since October, 1979—the month when the Fed switched its primary objective from managing interest rates to managing the money supply—interest income has become the fastest rising component of personal incomes. It expanded by almost 60 per cent during this period, compared with a rise of 22.7 per cent for all other components. In May, interest income increased by $4.2 billion, month-over-month and with the recent backup in interest rates it probably rose faster in June.

At the other end of the income spectrum is the farm sector. Although farmers had one of the best years in 1979, since then high interest rates and energy costs have significantly raised their production costs. At the same time, they were burdened by the drought in 1980 followed by surpluses of crops and meats in 1981. As a result, farm income has declined for the third year in a row, and is now less than one-half of that posted in May, 1979. In "real" terms, adjusted for inflation, the drop is even steeper.

In May, farm proprietors' incomes, at a seasonally adjusted annual rate of $15 billion, were unchanged from April, despite a slight improvement in the ratio of prices received to prices paid. Prices that farmers

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received for their products in May rose three per cent compared with the previous month, while their costs of production—including commodities and services, interest, taxes and wages—rose 0.5 per cent.

However, the picture worsened in June, portending that farm income is headed lower. Prices that farmers received for their products dropped by 0.7 per cent in June—the first monthly decline of the year. Although hog prices were the highest since October, 1975, this rise was more than offset by lower prices for wheat, cotton, soybeans, hay and eggs. At the same time, prices farmers paid to meet expenses rose 0.6 per cent. As a result, the prices received to prices paid ratio has once again declined in June deteriorating to 88 from 95 a year earlier (1977=100). At 100, the indicator would mean that farmers have the same buying power they had in 1977.

### Another Bumper Grain Crop . . .

Contributing to the problems of U.S. farmers this year will be increased competition from abroad. Besides the huge grain crop in the U.S., most of the other grain exporting nations are also expecting bumper harvests this year after record or near record harvests in the 1981/82 growing season. The global wheat harvest for 1982/83 is now estimated to be close to 462 million metric tons, up two per cent from last year's record harvest. Other grains which are important for food or feed are also expected to be in abundant supply. The global coarse grain har-

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 6/23/82 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 140.573 | + .153 | +10.064 |
| Loans to Depository Inst. | 1.015 | + .084 | – 1.287 |
| Float | 2.079 | + .032 | – .535 |
| Total Reserve Bank Credit | 152.809 | + .753 | + 6.826 |
| Treasury Deposits with Federal Reserve Banks | 3.730 | + .780 | + .709 |
| Currency Outside Banks | 131.129 | – .347 | + 7.697 |
| Member Bank Reserves: | | | |
| Required | 39.554 | + .210 | – .716 |
| Excess (Deficiency) | .281 | + .061 | – .133 |
| Total Reserves Held | 39.835 | + .271 | – .849 |
| Net Borrowed Reserves | .480 | – .009 | + 1.101 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 91.502 | – 3.195 | + 4.344 |

| Monetary Aggregates † | | % Change Since Three Months Ago* | % Change Since Year Ago |
|---|---|---|---|
| M1 | 449.9 | + 4.0‡ | + 5.6‡ |
| M2 (May '82) | 1,897.1 | + 10.6 | + 9.5 |
| M3 (May '82) | 2,278.1 | + 11.4 | + 10.3 |
| L (February '82) | 2,698.8 | + 10.6 | + 11.6 |

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

## New York Money Market

| Offering Rates 7/2/82 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡ U.S. Treasury Bills | 12.50% | 12.85% | 12.70% |
| * Federal Agencies | 13.30 | 13.85 | 14.20 |
| * Project Notes—Taxfree (46% Taxable Equivalent) | 13.89 | 14.63 | NA |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market—Prime | 15.15 | 15.25 | 15.10 |

| ‡ Finance Company Paper—Prime | | ‡* Bankers' Acceptances | |
|---|---|---|---|
| 5- 14 days | 15.38% | Aug. | 14.55% |
| 15- 29 days | 14.50 | Sep. | 14.55 |
| 30- 59 days | 14.63 | Oct. | 14.50 |
| 60- 89 days | 14.50 | Nov. | 14.50 |
| 90-179 days | 14.50 | Dec. | 14.50 |
| 180-239 days | 13.50 | Jan. | 14.30 |
| 240-270 days | 13.50 | | |

| ‡ Industrial Paper—Prime | | † Federal Funds Effective Rate | 14.75% |
|---|---|---|---|
| 30- 89 days | 15.38% | | |
| 90-120 days | 14.88 | | |

‡ Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 1st Q'82 | $ 2,998 | $ 2,998 | $ 2,853 |
| Gross National Product (1972 Dollars)* | 1st Q'82 | $ 1,485 | $ 1,498 | $ 1,516 |
| Percent Change, Annual Rate | 1st Q'82 | – 3.7 | – 4.5 | 8.6 |
| Change in Consumer Prices (all urban consumers)* | May '82 | 12.0% | 2.4% | 9.6% |
| Change in Producer Prices* | May '82 | 0.0% | 1.2% | 2.4% |
| Civilian Employment (Thousands of Persons) † | Jun '82n | 99,764 | 100,117 | 100,430 |
| Unemployment as % of Civilian Labor Force † | Jun '82n | 9.5% | 9.5% | 7.4% |
| Personal Income* | May '82 | $ 2,548 | $ 2,532 | $ 2,367 |
| Leading Indicators Composite Index (1967=100) † | May '82n | 127.7 | 127.3 | 136.0 |
| Industrial Production Index (1967=100) † | May '82 | 140.3 | 140.6 | 152.7 |
| Net Change in Consumer Installment Credit† | Apr '82 | $ 1.18 | $ 0.99 | $ 2.72 |
| U.S. Merchandise Trade Balance † | May '82 | –$ 3.29 | –$ 0.32 | –$ 3.35 |
| Plant and Equipment Expenditures* | 3rd Q'82 | $328.04(a) | $336.77(a) | $328.25 |
| Private Housing Starts (Thousands of Units)* | May '82 | 1,086 | 888 | 1,172 |
| New Construction Expenditures* | May '82n | $ 229.2 | $ 226.2 | $ 240.9 |
| Total Business Inventories† | Apr '82 | $ 508.5 | $ 507.6 | $ 487.1 |
| Total Business Sales † | Apr '82 | $ 339.9 | $ 343.1 | $ 350.9 |

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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vest this year is currently estimated at 772 million metric tons, about the same as last year's production. At the end of the 1981/82 crop year, the total world grain carry-over stocks were estimated to be 215 million metric tons compared with 180 million metric tons the year before. At the end of this crop year, the residual inventory may rise to a record 240 million metric tons, more than this year's total world grain exports (216 million metric tons).

This news has both its good and bad aspects. Ample crops mean continued downward pressure on domestic food costs as well as abundant supplies for export. On the other hand, this year's excess grain supply will add to the already huge unsold grain inventories from last year with consequent further depressing effects on both domestic and world market prices. Competition for export markets will be fierce as exporting nations struggle to unload their excess inventories.

Several countries in addition to the United States—including Canada, Mexico, Greece and Italy—are expecting increased yields this production year. Cool spring weather and plentiful moisture have favored grain growth in most grain exporting countries of the Free World. Canadian farmers, for example, may produce as much as 45 million metric tons of grain this year, almost eight per cent over last year's record of 42.1 million metric tons.

Offsetting these bumper crops are Russia's continuing

## Short Term Paper Outstanding

(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Negotiable Time CD's Weekly Reporting Banks** | | | |
| Nationwide (6/16/82) | 135,786 | – 828 | +19,695 |
| New York City (6/16/82) | 33,765 | + 270 | + 6,212 |
| **Commercial Paper (6/16/82)** | 176,962 | – 62 | +33,197 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (6/16/82) | 209,527 | – 62 | +30,728 |
| New York City (6/16/82) | 59,645 | + 433 | + 7,022 |

**Total Loans Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (6/16/82) | 486,050 | + 528 | +45,477 |
| New York City (6/16/82) | 114,220 | + 1,524 | + 8,108 |

## Financial Markets

| | Friday 7/2/82 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 13.10% | – .50 | – 2.06 |
| 180-Day Bills† | 13.92 | – .36 | – 1.54 |
| Longest Bills† | 14.17 | – .29 | – .88 |
| **Recent Issues:** | | | |
| 14⅜s 6/30/84 | 14.52 | – .38 | |
| 14⅞s 6/30/86 | 14.65 | NA | |
| 13¾s 5/15/92 | 14.35 | – .27 | |
| 14s 11/15/11 | 13.92 | – .22 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (7/1/82) | 12.58% | – .04 | + 1.73 |
| Blue List Total ($ Million) | $ 876 | – $ 95 | – $237 |
| 30-Day Visible Supply ($ Million) | $2,242 | – $ 34 | + $546 |
| Total | $3,118 | – $129 | + $309 |
| **Corporates:** | | | |
| Moody's Aa Composite (7/1/82) | 15.45% | – .14 | + .89 |
| 30-Day Visible Supply ($ Million) ‡ | $1,375 | + $ 10 | NA |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 796.99 | – 6.09 | – 162.20 |
| Transportation | 314.60 | – .75 | – 95.00 |
| Utilities | 106.17 | – .40 | – .57 |
| 65 Stocks | 310.97 | – 1.76 | – 61.44 |
| Standard and Poor's 500 Stocks | 107.65 | – 1.49 | – 21.00 |
| N.Y.S.E. Composite Index | 61.99 | – .73 | – 12.74 |
| N.Y.S.E. Avg. Daily Vol. for Week (000's) | 48,940 | – 3,796 | + 14,142 |

* 46% Taxable equivalent 23.30%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 7/2/82 | Week Ago |
|---|---|---|
| Overnight | 15.00% | 14.88% |
| 1 month | 15.50 | 15.63 |
| 3 month | 15.88 | 16.38 |
| 6 month | 16.13 | 16.63 |
| 1 year | 15.94 | 16.44 |
| **EURODOLLAR BONDS Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 14.90% | 14.90% |
| Long Term (7 to 15 yrs.) | 15.00 | 15.00 |

**FOREIGN EXCHANGE SPOT RATES**

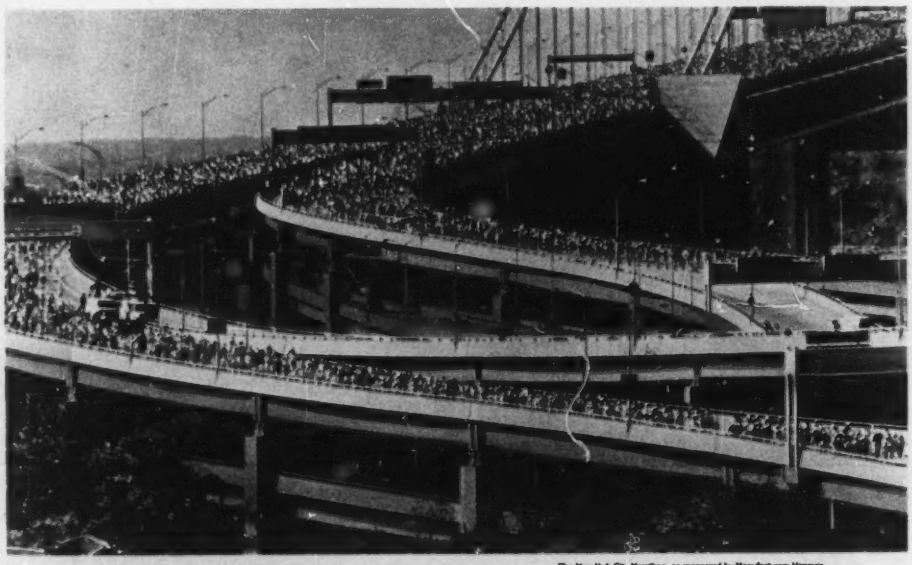
| New York Opening (7/2/82) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .02124 | 47.07 |
| Canada | .7760 | 1.2887 |
| Denmark | .1175 | 8.5115 |
| France | .1463 | 6.8375 |
| Germany | .4058 | 2.4640 |
| Italy | .0007219 | 1385.20 |
| Japan | .003913 | 255.55 |
| Mexico | .02078 | 48.13 |
| Netherlands | .3674 | 2.7215 |
| Switzerland | .4771 | 2.0958 |
| U.K. | 1.7357 | .5761 |

ing agricultural difficulties. The Soviet Union is expecting its fourth poor grain harvest in as many years as diminished planting acreage and bad weather during the early part of the growing season have taken their toll. Recent estimates of total 1982 Soviet grain production have been reduced by ten per cent to 185 million metric tons. The Soviet agricultural plan targeted grain production this year at 238 million metric tons. If this latest forecast turns out to be accurate, it will mean that exports of grain from the free world to the Soviet Union will again be substantial, perhaps as much as the 44 million metric tons which the Soviets are reported to have imported last year. It is not likely, however, that the entire gap between the Soviet domestic harvest and the production plan—53 million metric tons—will be imported, due to their shortage of hard currencies as well as other external claims on Soviet financial resources.

Harvests are also expected to be poor in other Eastern European countries adding to demand for grain imports. China, too, is suffering from damage to its grain crop as a result of unusually hot and dry weather in some of its production areas. But again, lack of suitable foreign exchange will limit their ability to import.

### . . . Will Roil World Grain Markets

World grain markets have been upset recently not only by excess supplies, fierce competition, and low prices, but by political factors as well. The present state of US-USSR relations has called into question the prospects for an extension or an expansion of the US-Soviet grain sale agreement which expires September 30. The Russians are also seeking easier credit terms for their grain purchases, pitting their shortage of hard currency against the huge western inventories and low prices. Thus, all the elements are in place for a period of extensive instability and volatility in world grain markets. Oversupply, sluggish growth in demand, low prices, fierce export competition in a recessionary world economic environment and the breakup of traditional grain export-import relationships as well as the politicization of grain marketing will all be factors with which exporters, particularly in the U.S., will have to contend in the coming year. ■

The New York City Marathon, co-sponsored by Manufacturers Hanover

**The marketplace demands sustained effort.**

**Manufacturers Hanover strives.**

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

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